

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**SB 199 - HB 193**

March 4, 2013

**SUMMARY OF BILL:** Decreases, from 5.25 percent to 5.00 percent, the state sales tax rate on the retail sale of food and food ingredients.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact – \$23,033,600**

**Decrease Local Revenue – Net Impact – \$807,600**

**According to the Department of Finance and Administration, the Division of Budget, the Governor's recommended budget for FY13-14 reflects a recurring decrease in state revenue to the General Fund of \$21,200,000 per year.**

**Assumptions:**

- According to the Department of Revenue (DOR), state sales tax collections derived from food and food ingredients were approximately 7.24 percent of total state sales tax collections in FY11-12.
- The current Fiscal Review Committee estimate for total state sales tax collections in FY13-14 is \$7,260,120,000.
- Under current law, state sales tax collections derived from food and food ingredients in FY13-14 are estimated to be \$525,632,688 ( $\$7,260,120,000 \times 7.24\%$ ).
- Under current law, taxable sales of food and food ingredients in FY13-14 are estimated to be \$10,012,051,200 ( $\$525,632,688 / 5.25\%$ ).
- The recurring decrease in state sales tax collections derived from the retail sale of food and food ingredients is estimated to be \$25,030,128 ( $\$10,012,051,200 \times 0.25\%$  rate reduction). This number is assumed to remain constant in subsequent years.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.
- Local governments are not held harmless from the loss of state-shared sales tax revenue under this bill.
- The recurring decrease in local revenue pursuant to the state-shared allocation is estimated to be \$1,152,137 ( $\$25,030,128 \times 4.603\%$ ).
- The net recurring decrease in state sales tax revenue attributable to the tax rate reduction on food and food ingredients is estimated to be \$23,877,991 ( $\$25,030,128 - \$1,152,137$ ).

- Fifty percent of tax savings will be spent in the economy on other non-food sales-taxable goods and services.
- The current state sales tax rate levied on non-food sales-taxable goods and services is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- Pursuant to Tenn. Code Ann. § 67-6-103(q), no portion of revenue derived from the 0.5 percent sales tax rate increase, from 5.5 percent to 6.0 percent (effective April 1, 1992), or the 1.0 percent sales tax rate increase, from 6.0 percent to 7.0 percent (effective July 15, 2002), shall be distributed to local government.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617%  $[(5.5\%/7.0\%) \times 4.603\%]$ .
- The net recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy on other non-food sales-taxable goods and services is estimated to be \$844,367  $[(\$25,030,128 \times 50.0\% \times 7.0\%) - (\$25,030,128 \times 50.0\% \times 7.0\% \times 3.617\%)]$ .
- The recurring increase in state-shared sales tax revenue apportioned to local governments as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services is estimated to be \$31,687  $(\$25,030,128 \times 50.0\% \times 7.0\% \times 3.617\%)$ .
- The total recurring increase in local revenue as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services is estimated to be \$344,564  $[(\$25,030,128 \times 50.0\% \times 2.5\%) + \$31,687]$ .
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$23,033,624  $(\$23,877,991 - \$844,367)$ .
- The net recurring decrease in local revenue as a result of this bill is estimated to be \$807,573  $(\$1,152,137 - \$344,564)$ .

## CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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